

A nonprofit organization providing awards and grants, including scholarships and fellowship grants, to needy individuals to enable them to continue their work in the creative arts, as well as to continue their education and studies, with no monetary benefit to the donor organization, is entitled to exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

Advice has been requested whether an organization, organized and operated for the purposes described below, qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954.

The organization was created for the purpose of encouraging the creative arts and scholarship through making grants available to writers, composers, painters, sculptors, and scholars for projects in their respective fields which they would not otherwise be able to undertake or finish due to the lack of funds.

The grants are unconditional in that the results of the research and rights to the artistic or scholarly work belong to the recipient of the grant. The grantor organization derives no monetary benefit from the activity. In awarding grants, preference is given to persons showing distinction or promise in their respective fields. Recipients of grants promise to make their work available for the benefit of the public in ways customary and appropriate to the particular work.

The funds of the organization are received as contributions and it is required by its articles of incorporation to disburse its funds, after the payment of operating expenses, for charitable, scientific, literary, and educational purposes.

Section 501(c)(3) of the Code provides, in part, for the exemption from Federal income tax of corporations, and any community chest, fund, or foundation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(d)(1)(ii) of the regulations provides that an organization is not organized or operated exclusively for one or more of the purposes specified in section 501(c)(3) of the Code unless it serves a public rather than a private interest.

In enacting section 117 of the Code relating to scholarships and fellowship grants Congress specifically recognized that such grants are made by section 501(c)(3) organizations. (Section 117 of the Code provides, in part, that in the case of an individual who is not a candidate for a degree, gross income does not include any amount received as a scholarship or fellowship grant

if the grantor is an organization described in section 501(c)(3) which is exempt from tax under section 501(a) of the Code.

An organization which makes unconditional grants to individuals (writers, composers, painters, sculptors, scholars, etc.), who are in need of funds to initiate, develop, or complete creative or scholarly works, or to conduct necessary research for such projects, may qualify for exemption under section 501(c)(3) of the Code, where the purpose of such grants is to assist the recipient to carry on his creative efforts. The fact that the recipient may receive money or other benefits from other sources in addition to the grant or award, as a result of his work does not preclude the grantor organization from qualifying as a charitable organization within the meaning of section 501(c)(3) of the Code.

Accordingly, it is held that the instant organization qualifies for exemption from Federal income tax as an organization described in section 501(c)(3) of the Code. Compare Revenue Ruling 66-104, below, wherein an organization sponsoring the preparation of teaching materials and textbooks, and sharing with the editors and authors the royalties from sales thereof by the publisher, is held not to qualify under section 501(c)(3) of the Code.

An organization may not consider itself exempt from tax merely because it falls within the scope of this Revenue Ruling.

In order to establish its status, an organization claiming exemption under section 501(c)(3) of the Code should file its application on Form 1023, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal office of the organization. See section 1.501(a)-1 of the regulations.